

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 58th LEGISLATURE - REGULAR SESSION

JOINT APPROPRIATIONS SUBCOMMITTEE ON GENERAL GOVERNMENT AND TRANSPORTATION

Call to Order: By **VICE CHAIR SEN. RICK LAIBLE**, on January 17,
2003 at 8:05 A.M., in Room 317-B Capitol.

ROLL CALL

Members Present:

Rep. John Brueggeman, Chairman (R)
Sen. Rick Laible, Vice Chairman (R)
Sen. Gregory D. Barkus (R)
Sen. Mike Cooney (D)
Rep. Monica Lindeen (D)
Rep. John Sinrud (R)

Members Excused: None.

Members Absent: None.

Staff Present: Matt Bugni, OBPP
Greg DeWitt, Legislative Branch
Amy Sassano, OBPP
Misty Shea, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.
Tape stamps indicate information that is found
below.

Committee Business Summary:

Hearing(s) & Date(s) Posted: Department of Administration;
State Lottery, Personnel, and
Information Technology
Services. 1/17/2003

Executive Action: none

{Tape: 1; Side: A; Approx. Time Counter: 0 - 15.5}

SEN. LAIBLE at the start of hearing, brought the committee up to date on obtaining additional information that might aid in their decisions by showing them where the money is going. The committee agreed that they would request detailed additional information on every agency that they would be dealing with. **SEN. COONEY** requested Greg DeWitt, of the LFD, to obtain the most recent audit reports on the agencies for the committee's review. **SEN. BARKUS** had a concern about the piles of paperwork the committee probably would run into with their requests. He suggested trend analysis from 1998-2002 for comparison. **SEN. COONEY** stated it was not his intention to overload the committee with papers, yet having something to reference should be an open option. **SEN. LAIBLE** commented on the issue as not being a partisan one but an important task that they all would work very hard on. The committee also discussed how far back SABHRS goes and what kind of information they could obtain on it, what type of questions they might have concerning program funding, and the possible actions they could take.

{Tape: 1; Side: A; Approx. Time Counter: 15.5 - 24}

Greg DeWitt, LFD, suggested that the committee limit their request to look at budgeted expenditures rather than all types, as reasons for spending differ and may not be typical. **Amy Sassano of OBPP** agreed with Mr. DeWitt and further explained to the committee how budget authorization works and how making agency comparisons could be difficult. The committee and staff discussed further what their intentions were with this issue.

{Tape: 1; Side: A; Approx. Time Counter: 24 - 30}

Bret Dahl, Administrator, Risk Management and Tort Defense, stated that he had concluded his presentation yesterday and welcomed questions. He and **SEN. LAIBLE** discussed Tort reform and costs. **Director Darkenwald** stated that he wanted to make sure the committee understood what the DOA self insures and what they buy insurance for.

{Tape: 1; Side: B; Approx. Time Counter: 0 - 10}

Mr. Dahl explained the process of how self insurance is funded and used. He said that currently the DOA entirely self insures general tort and auto liability. In relation to property, the first \$150,000 of each claim is self funded and administered. He also outlined aviation coverage and claims. **REP. SINRUD** questioned the numbers (Reference Page A-246 of the Budget Analysis book) and **Mr. Dahl** explained. A discussion ensued about reserves on lawsuits and how they are projected and allocated.

{Tape: 1; Side: B; Approx. Time Counter: 10 - 15}

Mr. Dahl and **SEN. LAIBLE** briefly revisited the subject of tort reform costs and purpose. **Mr. Dahl** pointed out that the State of Montana has some immunities in place that other states do not have. He provided an example concerning Washington State.

{Tape: 1; Side: B; Approx. Time Counter: 15 - 30}

Montana State Lottery Director Jerry LaChere, who was appointed by Governor Martz, began his presentation referring to Page A-229 of the Budget Analysis book. He introduced **Jeff Kirkland, Online Product Manager**, who provided the overview. **Mr. Kirkland** called the Lottery an anomaly as it is self supporting with no tax or General Fund dollars needed to operate. There were two handouts distributed, and Mr. Kirkland narrated the first one (19 pages long) nearly word for word (Exhibit 1). He went through the Lottery program description, origin, mission, structure, products, milestones, games, and components of success.

EXHIBIT (jgh10a01)

{Tape: 2; Side: A; Approx. Time Counter: 1 - 12}

Jeff Kirkland continued presenting Exhibit 1 from Page 11, detailing the business of entertainment and the importance of a sophisticated central computer system. He discussed lottery promotions, retailers, successes, and goals. He stated that to increase revenue more tickets must be sold which means more must be produced. This is the concept behind the product cost increases budget request. He added that the Lottery's net profit in the last four years has been between 19-21%, transferred to the General Fund.

SEN. COONEY asked if production costs include advertising. **Mr. Kirkland** responded that they did not. He went on to discuss the launching of new games (Reference Page 16 of Exhibit 1), the idea of a powerball game show, and retailer support. He introduced New Proposal 1508-Professional Service Contracts (Reference Pages 18-19 Exhibit 1). **Mr. Kirkland** commented that the Lottery really needs an in-depth analysis of what devices they have now and if these will sustain for future need.

EXHIBIT (jgh10a02)

{Tape: 2; Side: A; Approx. Time Counter: 12 - 19}

REP. LINDEEN questioned the Lottery's fiscal biennium goals, which are below what **Mr. Kirkland** said the Lottery actually generated from 2002 (Reference Budget Analysis book Page A-229). The question was deferred to **Director, Jerry LaChere**, who answered that in fiscal year 2002 the Lottery experienced a record high plus a \$200,000 increase as a result of some one-time accounting changes. These unexpected revenues are the reason the Montana State Lottery finds it difficult to project the gains again in future years. **Mr. LaChere** stated that the 2004-2005 numbers are reasonable goals not to be confused with projections. He discussed with the committee how percentages of administrative costs, tickets revenue, and commissions paid to retailers vary from year to year. **SEN. LAIBLE** asked what the gross sales were last fiscal year. **Mr. LaChere** replied that they were over \$33 million, and he said the committee would be furnished with the 2002 Annual Report.

{Tape: 2; Side: A; Approx. Time Counter: 19 - 30}

Director, LaChere outlined, for the committee, retailer support: point-of-sale (POS) materials, new products, bottom-line profits, sales, and the intentions of return on investment. He said the Lottery looks to refresh their gaming every 26 weeks, which breaks down to \$11 weekly from each retailer to cover the expense. **SEN. LAIBLE** stated that in previous budgets, the money needed to do promotions was there. Unless it was one-time-only it still is so with the \$70,000 additional request he asked what is the total spent on POS marketing. **Mr. LaChere** answered that at present, the Lottery is spending about \$31,000 for POS twice a year. What they are trying to do is increase to four times a year. He added this does not include all the advertising expenses necessary to get the message out. **REP. LINDEEN** and **Mr. LaChere**

discussed how the effectiveness of marketing strategies is measured and free media exposure.

{Tape: 2; Side: B; Approx. Time Counter: 0 - 5}

REP. SINRUD and **Mr. LaChere** discussed the prospect of the Powerball game show and it's anticipated operating cost and approximate net revenue of \$37-38,000 a year (Reference Budget Analysis book Page A-231 DP-1505 and the LFD comment). **SEN.**

COONEY wanted to know the historical breakdown of the amount of money spent and raised from the lottery. **Mr. LaChere** answered that in it's existence the lottery has done approximately \$400 billion in revenue, which he broke down into costs, expenses, and losses. This left \$100 billion net in the 15 year history.

{Tape: 2; Side: B; Approx. Time Counter: 5 - 17}

John McEwen, Administrator, State Personnel Division, began his presentation, referring to Pages A-233 and 234 of the Budget Analysis book. An 11-page handout (Exhibit 3) was also provided that he read from, beginning with the division's mission and statutory authority. He went through human resources standards and services, the broadband pay system, policy and legal compliance activities, developing and maintaining business processes, labor relations, and employee benefits (Pages 1-5 of Exhibit 3). **Mr. McEwen** explained the establishing of VEBA (Voluntary Employee Benefit Account) after the last legislative session. It is a self-managed account to set aside funds for medical expenses, primarily intended for use after retirement.

EXHIBIT (jgh10a03)

{Tape: 2; Side: B; Approx. Time Counter: 17 - 24}

Mr. McEwen gave an explanation of payroll and benefits operations, the professional development center, and division funding by General Fund and state special revenue (Pages 6-7 of Exhibit 3). He answered questions of committee members about the Daycare that state special revenue pays for and preference given to state employees.

{Tape: 2; Side: B; Approx. Time Counter: 24 - 30}

Mr. McEwen explained payroll and professional development center class fees, rate calculations, and benefit funds (Pages 8-9 of Exhibit 3) to the committee.

{Tape: 3; Side: A; Approx. Time Counter: 1 - 10}

Mr. McEwen continued his presentation with present law adjustments, proprietary funds and new proposals (Pages 9-10 Exhibit 3). He stated that he believed it would be cheaper for the state to centralize its newspaper advertising for recruitment purposes (NP-2305 Page 10 Exhibit 3). A brief discussion ensued concerning methods of advertisement and costs; **Mr. McEwen** then went over the final page of the handout.

{Tape: 3; Side: A; Approx. Time Counter: 10 - 18}

SEN. LAIBLE asked for clarification of what state employees the personnel division represents. **John McEwen** answered that their authority encompasses the executive branch in terms of policy setting and pay plans with the exception of rule making for leave administration, payroll, and benefits, which cover all three branches of government. Then the classification of universities and funding were discussed for the committee's information. **Mr. McEwen** explained flexible spending accounts and health insurance for teachers to **SEN. LAIBLE**.

{Tape: 3; Side: A; Approx. Time Counter: 18 - 30}

REP. SINRUD and **John McEwen** discussed how unused sick leave can fund VEBA, related expenditures by law, and liability. **REP. SINRUD** asked if the State Personnel Division charges other departments within the DOA for its services; and whose budget pays for it. **Mr. McEwen** answered that they do charge the departments, and he said payroll fees are applied as payment. **SEN. LAIBLE** asked about vacation and compensation time liability. **Cathi Muri, Administrative Financial Services Administrator**, responded to the question. **SEN. COONEY** and **SEN. BARKUS** asked that **Mr. McEwen** address state employee healthcare benefits and potential compensation difficulties, which he did.

{Tape: 3; Side: B; Approx. Time Counter: 0 - 10}

Committee members and **Mr. McEwen** continued to discuss state health insurance plans, including the flex plan. **Director Darkenwald** gave additional information on rising healthcare costs. He addressed the issue of comp. time for REP. SINRUD, and he spoke on the HR Standards and Services Bureau.

{Tape: 3; Side: B; Approx. Time Counter: 10 - 16}

REP. SINRUD had further questions concerning compensated time, **Cathi Muri** and **John McEwen** answered them. **SEN. LAIBLE** and **Mr. McEwen** discussed employee training.

{Tape: 3; Side: B; Approx. Time Counter: 16 - 30}

Brian Wolf of the Information Technology Services Division (ITSD) of the State of Montana, was reintroduced for the purpose of providing pertinent information. **SEN. LAIBLE** and **SEN. BARKUS** led a discussion about the possibility of a committee bill regarding state coordination of IT systems. **Mr. Wolf** thanked the committee again for their time and overviewed the culture of technology and the technology process within the state since SB 131 of the 2001 legislature was enacted. He addressed what the bill presumed versus the reality, the triad model, best business practices, planning, and setting standards. He stated that **Director Darkenwald** and he are working through agency issues to accomplish what SB 131 asked for and that he is structuring and implementing a strategic plan for success. **Mr. Wolf** stated that change has to happen and he wants people to provide their feedback. Based on legislative intent, whether or not changes need to be made to SB 131 and what they are dependant on were the final topics.

{Tape: 4; Side: A; Approx. Time Counter: 0 - 6.5}

Brian Wolf continued speaking on coordinating with entities such as higher education, K-12, and state government. He answered questions by informing the committee that collaboration, leadership, and commitment at the executive level of each agency are what are needed for the ITSD to succeed. He addressed his recommendations to agencies, and what other states have done in this situation. Controls, quality assurance, project approval, and how something such as POINTS could happen were discussed.

{Tape: 4; Side: A; Approx. Time Counter: 6.5 - 13}

REP. LINDEEN stated that she had hoped the committee would not seek to restructure SB 131 at this time and she commented on carrying a sister bill to it during the 2001 session. She spoke on being careful with authority, possible options concerning SB 131, and the organizational impact to the departments. **SEN.**

COONEY asked Mr. Wolf's professional opinion of where the Montana government stands in relation to technology. **Mr. Wolf** answered that he thinks Montana has a lot to be proud of with respect to IT. He detailed that we have extremely good infrastructure in state government with quality dedicated workers and highly skilled people who came from out of state. He stated that part of his job is to identify risks, and his goal is to make consistent the IT environment with a holistic balance of strengths and weaknesses. **Mr. Wolf** explained a work plan that is in effect which fills the gaps, and he assured the committee that he is confident and committed to the outcome.

{Tape: 4; Side: A; Approx. Time Counter: 13 - 24}

SEN. COONEY and **Mr. Wolf** discussed matters of communicating with the legislature to fulfill responsibilities under law. **Director Darkenwald** added his comments concerning where he thinks the state is at regarding IT. He said that he thought SB 131 was a great and critically important piece of legislation, yet he has concerns about getting over the hurdles to meet the vision.

Director Darkenwald wanted the committee to know that a huge amount of time has already been spent building bridges between agencies. He added that he thought they were on the right track.

SEN. COONEY commented on the challenges and he appreciated the agency for what it is trying to do. **Greg DeWitt, LFD** provided the committee with updated tables on the Appellate Defenders office and the DOA, which he explained.

EXHIBIT(jgh10a04)

EXHIBIT(jgh10a05)

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ADJOURNMENT

Adjournment: 11:55 A.M.

REP. JOHN BRUEGGEMAN, Chairman

MISTY SHEA, Secretary

JB/MS

EXHIBIT(jgh10aad)